



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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Running Up Debt on the Nation's Credit Card: Why the Tax Cut Raids Social Security

Dear Democratic Colleague,

Republicans' assertions that extending last year's tax cut will have no effect on the Social Security Trust Fund are misleading. Depletion of the non-Social Security budget *does* affect the government's ability to pay benefits from the Trust Fund, even if the Trust Fund continues to operate as always.

A simple metaphor about family budgets clarifies Republicans' specious reasoning. A worker building assets in a retirement account negates that saving if he simultaneously runs up a lot of credit card debt. The assets in the retirement account will not support the worker's retirement because they will be needed to pay off the credit card debt. Putting on blinders and focusing solely on the retirement account balance is a recipe for an impoverished retirement. The sensible way to prepare for retirement is to build up retirement assets while also reducing debt elsewhere in the worker's overall portfolio.

Like the short-sighted worker, Republicans suggest we take comfort from the rising balance in the Social Security Trust Fund between now and 2027. They ask us to ignore their fiscal mismanagement of the rest of the budget and its dire consequences for the government's ability to pay future Social Security recipients their benefits. By contrast, Democrats are resisting Republicans' return to a path of burgeoning public debt because it mortgages the Social Security Trust Fund.

Only a year ago, every Member of the Republican leadership vowed that every penny of the Social Security surplus would be saved, used solely to buy back outstanding Treasury bonds. Reducing public debt in a way that mirrored the buildup of Social Security obligations was the logic behind the repeated lock-box bills that passed the House with overwhelming bipartisan majorities.

Now, even without the permanent extension of the tax cut, this year's House Republican budget spent all of the Medicare surplus and 93 percent of the Social Security surplus over the next five

years. And, Republicans acknowledge that their agenda goes far beyond the items included in that budget. They refuse, however, to acknowledge that the \$4 trillion cost from 2013 to 2022 of making the tax cut permanent will diminish the government's financial standing just as the Baby Boom's retirement reaches full force.

Pushing the non-Social Security budget into large and chronic deficits is doubly damaging given that Social Security already faces a shortfall. Even if we save all of the Social Security surplus, the system will eventually require additional resources from the rest of the budget. Deciding now to drain trillions of dollars in the future, with today's budget already invading the Social Security surplus as far as the eye can see, will make it that much harder to provide those resources.

This is the problem currently bedeviling those who advocate replacing Social Security with stock market accounts. The President's own hand-picked commission admitted that privatization requires substantially greater outside resources than just those earmarked for the existing Social Security system. Yet, many of the same Members who favor privatization voted to extend the tax cut that will drain the resources privatization would need.

Unfortunately for the nation, the fiscal chickens are coming home to roost now rather than in the future. Raising the statutory debt limit, which takes account of both debt held by the public as well as securities held by government trust funds, has become urgent. Just last year, the Administration claimed that under the President's policies, debt would not reach the statutory limit until 2008. Last week, though, the Treasury Secretary again requested a \$750 billion increase immediately so that the government's credit standing would not be jeopardized.

Debt subject to statutory limit can be held constant as long as the surplus outside of the trust funds is as large as the buildup of securities in those funds. In fact, CBO predicted last year that debt subject to limit would decline for six consecutive years — provided the surplus was not dissipated. Instead, Republican budget policies have returned us to the path of mounting debt that it took so much work to reverse. Republicans' response to this reversal is to call for more of the same medicine that created the problem in the first place.

Hiding behind the increasing balance in the Social Security Trust Fund while obscuring the mounting debts in the rest of the budget is flawed accounting that will undermine Americans' retirement security.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member